

Attachment 3
(Fiscal Management 1 and 2)

Financial Stability Checklist

Source of Financial Stability Information and When Might An Area Program Receive a Follow-Up Letter
(Revised by DMHDDSAS, January 13, 2000)

I. Source of Financial Stability Information (FMR = Fiscal Monitoring Report)

Item #	Financial Stability Item	Primary Source of Data
1	Fund Balance (8% Minimum)	Annual Audit, FMR & Local Govt. Comm.
2	Use of Fund Balance (Recurring or Non-Recurring)	FMR and Division Contact
3	Balanced Budget	FMR
4	Review of Expenditures and Revenues	FMR
5	Ratio of Assets to Liabilities	Annual Audit
6	Ratio of Current Assets to Cash Equivalencies	Annual Audit
7	Current Assets to Budget as a Percent	Annual Audit
8	Contingent Liabilities	Annual Audit & Division Knowledge
9	Percent of Budgeted Revenues Which are Variable	FMR

II. When Might An Area Program Receive a Follow-Up Letter and for What Reasons

It is important that area programs submit complete and accurate information on the Fiscal Monitoring Reports (FMR), including explanations, to ensure that the Division has sufficient information to review financial stability indicators with area programs. **Adequate explanations submitted by area programs with the FMR's may eliminate the need for written follow-up by the Division.** While some items are more objective than others from the above list, the following is a general summary of actions which may warrant follow-up. The need for written follow-up will be based on individual area program circumstances. Any written communication or follow-up with area programs outlined below will be copied to the area board chair and respective county managers in the catchment area. Under separate cover, DHHS/DMHDDSAS will be sending out updated FMR instructions which require an explanation if the unrestricted FB is less than 8% and how fund balance is being used if reflected on the FMR, e.g., one-time capital, one-time equipment, recurring need – specify, etc.

1. Fund Balance (FB) Amount (8% Minimum): FB will be reviewed in two separate but related steps. The first review will be accomplished after submission of the local annual audit and subsequent completion of the Tentative Settlement Report (TSR). The second review will be conducted based on FB estimates provided on the FMR. If these processes reflect an unrestricted FB of less than 8%, written communication will be sent from the Division to the area program identifying the FB issue and working with the area program to implement actions, as necessary and warranted, to increase the available unrestricted FB. The Division recognizes differences in securing FB information for multi-county area programs and in single counties for single county area programs. In single county area programs, the Division will coordinate with the Local Government Commission to secure information regarding single counties when a countywide FB falls below 8%.
2. Use of Fund Balance (recurring or non-recurring) If the FMR information indicates that FB is budgeted for recurring needs, the Division will assess this utilization with the area program and review area program plans to defray or eliminate these costs in subsequent years. Depending upon the amount and individual circumstances, the use of FB to meet recurring operating needs may warrant written follow-up with the area program.
3. Balanced Budget: A verified unbalanced budget from a FMR review or annual audit will immediately warrant written follow-up to the area program. Area programs must operate with balanced budgets.
4. Review of Expenditures and Revenues: This will generally be reviewed from data submitted on the FMR. As required in the FMR instructions, area programs must submit (per July 1, 1999 FMR memo from Joyce Johnson and John Baggett to Area Directors/Area Finance Officers/Area Board Chairs) an explanation with the quarterly FMR when annualized expenditure rates are above 110% of the budgeted amount or annualized revenue collections are below 90%. Items falling outside the 110% expenditure and 90% revenue percentages require explanation and, as necessary, follow-up. If adequate and reasonable explanations are provided with the FMR, the Division will probably not need to follow-up with the area program on that particular FMR submission, provided that the explanations, while adequate and reasonable, do not indicate a critical financial situation for the area program. The Division will monitor “variance” items on the subsequent FMR and follow-up in writing if the situation is not being corrected, e.g., reduced expenditures, increased revenue collections, etc. This review will also take into account an assessment of historical trends with respect to expenditures and revenues.

5. Ratio of Assets to Liabilities: Will be reviewed in conjunction with the Controller's Office upon receipt of the area program's annual audit. There is no established standard for this item, however, review will address large balances of Accounts Payable and Accounts Receivable.
6. Ratio of Current Assets to Cash Equivalencies: Will be reviewed in conjunction with the Controller's Office upon receipt of the area program's annual audit. There is no established standard for this item, however, review will focus on the area program's liquidity.
7. Current Assets to Budget as a Percent: Will be reviewed in conjunction with the Controller's Office upon receipt of the area program's annual audit. There is no established standard for this item, however, review will focus on the area program's ability to meet current obligations.
8. Contingent Liabilities: Contingent liabilities will generally be identified in the area program's annual audit and through Division knowledge of potential liability issues, e.g., Medicaid audits, IVA-EA audit, etc. Quantified or projected contingent liabilities will be compared to FB amounts to determine if sufficient unrestricted FB is available to defray contingent liabilities. Division will also work with area programs on the nature of each contingent liability and the likelihood of actual payment. Significant contingent liabilities will be an indication of a need to review the level of contingent liabilities against available area program resources.
9. Percent of Budgeted Revenues Which are Variable: This item will be reviewed based on FMR data and takes into account the area program's reliance on variable revenues such as Medicaid, large grants, etc. Variable revenues will be reviewed on a regular basis as part of the 110% expenditure and 90% revenue requirements previously noted. From a fiscal standpoint, a high percent of variable revenues within the total budget is not an issue in and of itself as long as the revenues are collected to support expenditures. Area programs with a high percentage of variable revenues to total budgeted revenues will warrant special consideration in terms of documentation accuracy for client records, etc., due to an increased potential for documentation errors and paybacks. This review will be factored into any such reviews of area program documentation procedures.